

Rating object

Elia Group NV/SA

Long-term Local Currency Senior Unsecured Issues of Elia Group NV/SA

Rating incl. outlook / watch

A / negative

A- / negative

The present update is, in the regulatory sense, a public unsolicited rating.

Date of inception / disclosure to rated entity / maximum validity:

Rating object	Date of inception	Disclosure to rated entity	Maximum validity
Elia Group NV/SA	11.03.2022	14.03.2022	Until withdrawal of the rating
Long-term Local Currency Senior Unsecured Issues of Elia Group NV/SA	11.03.2022	14.03.2022	Until withdrawal of the rating

There occurred no changes after the communication of the rating to the rating object.

Rating summary:

Creditreform Rating (CRA) has confirmed the unsolicited, public corporate issuer rating of Elia Group NV/SA – hereinafter referred to as the Group or Elia - at **A**. The outlook has been changed to **negative**. The unsolicited corporate issue rating of long-term local currency senior unsecured notes issued by Elia Group NV/SA have also been confirmed at **A-**, whereas the outlook has also been changed to **negative**. For more information about our rating assessment of Elia Group NV/SA, especially with regard to its earlier development, structural, business and financial risks, we refer to our full rating report, which we published on 17.02.2020 and our update report, which we published on 08.07.2021. Both of them can be found on our website under published ratings.

The current rating attests a high level of creditworthiness to Elia Group NV/SA, representing a low default risk.

We consider that the Group has a low business risk profile due to the supportive regulatory regimes in both Belgium and Germany, which is further enhanced through its monopoly status in Belgium and the regions where it is active in Germany. The Group records stable revenues, sufficient margins, and has an adequate capital structure. Additionally, the Group's close ties to the Belgian government - and to a lesser extent the German government - also have a positive influence on our rating assessment, and are the result of a high degree of systemic importance and ownership in both Elia Group and 50Hertz Transmission (Eurogrid GmbH) respectively by Publi-T (Belgian) and KfW (German).

The yearlong outlook for the rating is negative. This appraisal takes into account the current regulatory frameworks for 50Hertz (2019 – 2023) and for Elia Transmission Belgium (2020 – 2023), as well as the adopted investment plan, which has been revised for the years 2022-2026 in both Belgium and Germany, stipulating further increase in capex. The development of revenues in 2021 largely showed a recovery from the implications of the COVID-19 pandemic in both Belgium and Germany. However, the current earnings structure shows a slight deterioration of earnings capacity despite the increase in revenues, largely due to the rise of operative expenses in the course of adoption of the Group's structure to the growth and modernization of asset base and future major investments. We continue to assume that the stability and support offered by the regulatory framework required for the financing of these investments will continue to be present but expect a negative change in leverage and a deterioration of financial figures against the backdrop of the expanding investment plan.

In the 2021 financial year revenue totaled EUR 2,859.7 million, an increase of 15.6% compared to the previous year. Revenues in both Belgium (+EUR 194.8 million) and Germany (+EUR 262.0 million) saw positive development which was slightly offset by lower revenues from Elia Grid International (-EUR 7.3 million).

EBIT decreased by 6.6%, amounting to EUR 540.1 million, which was driven by lower EBIT in Belgium (-EUR 10.4 million) as well as lower EBIT in Germany (-EUR 67.2 million). In Belgium, the increase in regulated net profit (driven by higher fair remuneration and incentives) was offset by lower regulated financial costs and lower income taxes, which were passed through to revenues. The decrease in Germany resulted from increasing personnel and IT costs, a peak in the maintenance cycle and higher depreciations. The result of associates surged by EUR 40.2 million to EUR 49.4 million, mainly driven by the high contribution of the Nemo Link interconnector (EUR 47.0 million, up by EUR 39.7 million).

The Group's adjusted net profit increased by 6.6% to EUR 328.3 million. Elia Transmission Belgium recorded a net profit of EUR 131.0 million, up by EUR 6.2 million, against the backdrop of higher fair remuneration and higher performance on incentives, and was offset by lower capitalized borrowings and a lower contribution from employee benefits. The adjusted net profit of 50Hertz Transmission (Germany) totaled EUR 165.4 million, down by EUR 27.2 million due to the higher IT costs following the enhancing of digitalization, a peak in maintenance and higher personnel

costs, partially offset by one-off regulatory settlements linked to changes in regulation, higher investment remuneration following asset growth, and higher financial results due to lower interest costs. The Nemo Link and non-regulated segment saw strong development with an adjusted net profit of EUR 31.9 million, an increase of EUR 41.2 million, resulting from the strong development of Nemo Link and lower regulatory settlements, and partially offset by increased holding and business development costs.

The Group's capex came to EUR 1,227.6 million in 2021 and was focused on the development of its onshore and offshore electricity transmission infrastructure, and sustainable enhancement of its operational practices and digitalization. As of 31.12.2021, net financial debt sank by EUR 2,578.7 million to EUR 4,886.3 million. The decrease in debt was entirely attributable to Germany (-EUR 2,741.7 million), against the backdrop of three federal compensation payments (EUR 2,160.0 million) to pay back the revolving credit facilities (EUR 700 million) that were temporarily contracted to finance the EEG deficit at the end of 2020, and very high EEG cash-in (+EUR 758.9 million) driven by elevated energy market prices. The net financial debt excluding EEG-effects rose by EUR 340.1 million to EUR 6,996.3 million.

Equity attributable to owners of the company rose by EUR 378.8 million to EUR 4,552.0 million (+9.1%). This increase was mainly due to profit attributable to the owners of the company (EUR 295.2 million) and the revaluation of post-employment benefit obligations (EUR 19.9 million) which was offset by the 2020 dividend payment (EUR 117.5 million). Additionally, in 2021, 50Hertz began applying hedge accounting on future contracts for grid losses. Due to the strong increase in energy prices, the fair value of these future contracts is highly positive, leading to an increase in the equity attributable to owners of the company of EUR 199.9 million.

In April 2021, Eurogrid GmbH issued a EUR 500 million senior bond with a coupon of 0.741%, thus securing part of the liquidity for its upcoming investment program. As a result, Elia Group's average cost of debt decreased to 1.67% (down by 22 bps).

Both 50Hertz and ETB have updated their investment plans in 2022. 50Hertz plans to invest a total amount of EUR 5.6 billion over the time period 2022 – 2026, up significantly from its former capex plan 2016 – 2020 which amounted to EUR 2.9 billion and up EUR 900 million from its 2021 – 2025 plan. It plans to finance 60% of the investment program externally. ETB's investment plan now amounts to EUR 4.0 billion for the period 2022 – 2026, up EUR 1.7 billion from its prior plan for 2020 -2024 of EUR 2.3 billion. Both plans mainly foresee a development in offshore energy and grid reinforcements.

Overall, we believe that the Group has confirmed its resilience against the economic crisis resulting from COVID-19 pandemic, supported by stable regulation, and showed an overall positive development in the 2021 financial year. However, the foreseen investments by the Group could increase its leverage, thus causing a deterioration of its overall credit position and financial metrics. For the financial year 2022 Elia Group is expecting to achieve an adjusted return on Equity of between 6.25% - 7.25% (7.56% in 2021, 7.20% in 2020). As Belgian and German TSOs, the Group's operating subsidiaries are not directly affected by the war in Ukraine or the sanctions against Russia. Nevertheless, a further tightening of sanctions against Russia cannot be ruled out. The probable intensification of the energy crisis, with an overall decrease in energy production and transportation, could have an additional negative effect on the Company's revenues.

Based on the unsolicited corporate issuer rating of Elia Group NV/SA (A / negative), Creditreform Rating has conducted unsolicited corporate issue ratings of notes issued by Elia Group NV/SA. The rating objects in question are exclusively the long-term senior unsecured issues denominated in euro, which have been issued by Elia Group NV/SA and which are included in the list of ECB-eligible marketable assets. The ECB list of eligible marketable assets can be found on the ECB's website. The notes issued by Elia Group S.A. have, from our point of view, a structural subordinated status to all indebtedness of its subsidiaries. The issuer's subsidiaries have no obligation to pay any of the obligations arising from this program. The rating result for these notes is therefore set at one notch below the corporate issuer rating of the Elia Group. The rating result for these notes is set at A- with negative outlook.

Primary key rating drivers:

- + The revenues in both Belgium and Germany largely showed a recovery from the implications of the COVID-19 pandemic in 2021
- + Overall stable development as a result of stable regulatory framework
- + Improved contribution from Nemo Link

- Increase in net financial debt excluding EEG-effects
- Increase in operating costs in Germany due to the elevated IT and personnel costs in the course of digitalization and structural adaptation
- Adjustments to the investment plan for 2022-2026 with further increased capex
- Expected deterioration of key financials in the course of ambitious investment plan and the need of increase in debt to finance it combined with pressure on the operating costs following the growth and modernization of assets

ESG-criteria:

CRA generally considers ESG factors (environment, social and governance) within its rating decisions. In the case of Elia Group NV/SA we have not identified any ESG factor with significant influence.

Based on the sustainability report of Elia Group S.A. and other documents available to us, we currently assess the risks from ESG factors in relation to the rating object as low. In October 2021, Elia received an ESG risk rating of 9.9 and was assessed by Sustainalytics to have a negligible risk of experiencing material financial impacts from ESG factors. Eurogrid GmbH issued a green bond in April 2021, and Elia Transmission Belgium also has a sustainability-linked revolving credit facility in place.

As a Transmission System Operator, we believe that Elia Group S.A. plays an important role in the decarbonization of the energy market by integrating an increasing amount of renewables into their systems. Both Elia Transmission Belgium and 50Hertz Transmission assigned a strategic priority to the decarbonization of society. Compared to its peers, we consider the environmental, social and governmental aspects as average.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found [here](#).

Rating scenarios:

Please note: The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

Best-case scenario: A

In our best-case scenario for one year, we assume a corporate issuer rating of A. We believe that a rating upgrade within the time horizon of one year remains unlikely based on the ambitious investment plan for both Elia Transmission Belgium S.A., as well as for 50Hertz Transmission GmbH. We expect the Group’s financial profile to slightly deteriorate in the short term, as it will need additional external financing to finance its updated investment plans.

Worst-case scenario: A-

In our worst-case scenario for one year, we assume a corporate issuer rating of A-. It is assumed that the planned investments are in part financed by further indebtedness, which has an adverse effect on the Group’s financials and causes a deterioration in Elia Group’s financial key figures, which is noticeable in the short term. Another significant upward adjustment in the investment plan could also have a detrimental effect on the Group’s rating. The revenues could also be negatively affected by the implications of a threatening energy crisis in Europe and an overall decrease in power generation and transportation against the backdrop of the conflict in Ukraine and the resulting sanctions against Russia.

Analysts / Person approving (PAC):

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Initial rating:

Rating object	Event	Rating created	Publication date	Monitoring until	Result
Elia Group NV/SA	Initialrating	07.10.2016	www.creditreform-rating.de	17.10.2017	A / stable
LT LC senior unsecured notes issued by Elia Group NV/SA	Initialrating	08.08.2018	www.creditreform-rating.de	05.02.2020	A / stable

Status of solicitation and information basis:

The present rating is, in the regulatory sense, a public **unsolicited** rating. The rating object participated in the creation of the rating as follows:

Unsolicited Corporate Issuer / Issue Rating	
With rated entity or related third party participation	No
With access to internal documents	No
With access to management	No

Rating methodology / Version / Date of application:

Rating methodology	Version number	Date
Corporate Ratings	2.3	29.05.2019
Government-related Companies	1.0	19.04.2017
Non-financial Corporate Issue Ratings	1.0	October 2016
Rating Criteria and Definitions	1.3	January 2018

Regulatory requirements:

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation. The rating¹ was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

Conflict of interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, Creditreform Rating AG will disclose all ancillary services in the credit rating report.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

Corporate issuer rating:

1. Annual report
2. Website
3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating
2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG

¹ In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a “rating action”; initial release is indicated as “initial rating”, other updates are indicated as an “update”, “upgrade” or “downgrade”, “not rated”, “confirmed”, “selective default” or “default”.

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA [website](#).

An explanatory statement of the meaning of Creditreform Rating AG's default rates are available in the credit rating methodologies disclosed on the website.

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